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United States Department of Agriculture, Office of Information, Press Service,
Washington, D. C.

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Extension Editors

(Tobacco Story)

Note: This special material on the tobacco situation, prepared in the Tobacco Section of the Agricultural Adjustment Administration, may be used as you wish.

While the income of tobacco farmers has been doubled, increasing from 107 million to 214 million dollars, as a result of the cooperation of tobacco farmers under the provisions of the Agricultural Adjustment Act, farmers need a still larger share of the total tobacco income on a permanent basis, according to J. B. Hutson, Chief of the Tobacco Section of the Agricultural Adjustment Administration.

Mr. Hutson explains that the tobacco program was planned with two purposes in view -- to help tobacco growers increase their incomes, and to assist other branches of the industry in eliminating unfair and uneconomical practices which tend to reduce the incomes of growers and of others rendering essential service. "In working toward these two objectives," says Mr. Hutson, "we have tried to bring about as much immediate improvement as possible without jeopardizing the returns of future years."

PERMANENT PROSPERITY IS REAL GOAL

"The most tempting opportunity," Mr. Hutson says, "was that of stabilization operations. We were strongly urged to enter into the market and purchase tobacco in order to get tobacco growers three to five percent more than we were able to obtain for them in any other way. We decided to forego this opportunity in order to give tobacco growers a more favorable situation for returns in future years. Recent experiences have proven that you can obtain a temporary



advance by holding supplies from the market, but if these supplies are segregated in such a way as to threaten the market in future years, in the end the net gain may be negligible or may result in a net loss. Likewise, we have studied the experiences and developments of recent years in planning our different programs."

Looking towards a program for better tobacco prices next year, and the next, and five years from now, tobacco farmers should assist and support three definite undertakings, according to Mr. Hutson.

The first is the expansion of foreign trade. The outlook for exports in 1934 is somewhat brighter. Exports of leaf tobacco during the first four months of this year were 10 percent above those of the corresponding period of last year. There was a marked increase in the exports of flue-cured and Burley tobacco, while exports of fire-cured tobacco remained around last year's level. Although most of the increase in exports has gone into foreign stocks, it does appear that the decline in consumption has been checked in some foreign countries at least.

Due to the enormous task of reducing production to the level of consumption, some may have obtained the impression that the Agricultural Adjustment Administration was more concerned about reducing the crop than increasing consumption. This is not the case. Every opportunity has been seized to regain recently lost export trade. Some progress has already been made in this connection and, now with the approval of tariff legislation, vigorous efforts will be made for further gains.

Increased domestic consumption is the second method proposed for increasing the income of tobacco farmers.

Domestic cigarette output during the past four months has been 20 percent above that of the first four months of last year. Also there has been a sub-

stantial increase in the domestic output of other classes of tobacco products. The prices of the standard brands of cigarettes have advanced, but cigarettes are available to consumers in states in which there are no state taxes at two packages for 25 cents and at 10 cents per package.

Tobacco farmers should be greatly concerned that the rates of internal revenue taxes be such as to result in the largest possible consumption. The interest of the Tobacco Section in tax rates is to be certain that the growers share in any reduction and that any changes adopted will bring about a stable and permanent improvement in the growers' income.

An attempt was made during the past session of Congress to obtain a reduction in tobacco taxes. Two proposals have been widely discussed in recent weeks. One proposed a 40 percent horizontal reduction in the tax rates on all tobacco products and the other a reduction in the tax rates on 10 cent cigarettes. The first should result in some further immediate increase in consumption and the second should improve the competitive situation in the industry. Both are desirable.

Since no legislation on this problem was enacted at the last session of Congress, it is the hope of the Agricultural Adjustment Administration that during the interim between now and the next session this matter of tax reduction will be widely discussed and thoroughly debated. It is hoped that it will be possible to develop a plan upon which all can unite that will insure maximum benefit to tobacco growers from a reduction, and at the same time will not, in itself, reduce the competition within the industry. This problem demands a careful study of facts.

After every possible effort has been exhausted to expand outlets, it still may be necessary to control production for some time in order to hold production

near the level of consumption. Unless production is kept near that level, we shall probably again experience some of the results of the past depression years. The returns to tobacco growers during the next five years will depend, to a considerable extent, upon how they cooperate with the Agricultural Adjustment Administration in keeping supplies in line with market needs.

These three definite objectives -- (1) larger foreign markets, (2) increased domestic consumption and (3) controlled production -- are permanent difficult problems that the farmers themselves must help solve. The cooperation given by farmers, to those agencies set up to assist them, will to a large extent determine the speed and the permanency in the improvement of prices to tobacco growers.

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Note to Editors: This information on the provisions of the Kerr-Smith tobacco act, prepared in the tobacco section of the Agricultural Adjustment Administration, may be used as you wish.

Approximately 94 percent of all tobacco growers have signed contracts to reduce their 1934 acreage on an average of 30 percent. With normal yields the 1934 tobacco crop will be nearly one billion pounds. Such a crop would be as much below the level of consumption as the 1933 crop was above that level. As a result of this promised reduction, the average price received for all types of tobacco grown in 1933 rose to 12.9 cents per pound, compared with 9 cents for the two previous crops. This represents an increase of slightly above 30 percent.

This overwhelming majority of 94 percent of the tobacco farmers asked that they be protected from the non-cooperating minority. They did not wish to see their efforts to reduce production in line with market needs offset by the non-cooperator, who increases his production, or the new grower who spreads the acreage and the territory. In addition, cooperating growers believed it was unfair for non-cooperators to "ride free" and enjoy benefits which were made possible by majority cooperation.

The answer to the request of the cooperating growers is the Kerr-Smith Tobacco Act. The main provision of this Act is the levying of a tax of from 25 to 33 1/3 percent of the sales value of the tobacco of non-contract signers, beginning with the 1934 crop. Maryland tobacco and Virginia sun-cured, and cigar leaf tobacco are exempt from the Act in 1934. At the request of three-fourths of the growers, any type may be brought under the Act in 1935.

The effect of the Act is to equalize conditions to all tobacco growers and not to compel or prohibit any farmer from growing tobacco. Neither is it

intended to force any tobacco grower to sign a contract. Growers planting their normal acreage or increasing it will receive just as much for their tobacco, after they have paid the tax, as they would without the tax, had no reduction program been offered. The bill is the second step to insure that the benefits of voluntary cooperation will go to the cooperators.

Small growers and others who, through unfavorable situations of some kind, have been unable to establish satisfactory production bases and have not signed up, may be taken care of under this Act. The Secretary of Agriculture is authorized to allot tax-payment warrants to non-signers up to 6 percent of the tobacco in each county of the total allotment of contracting producers. Two-thirds of these warrants to non-signers must be to small growers with allotments of 1,500 pounds of tobacco or less. Included in the eligible group for tax-exempt warrants will also be farmers who lost their farms during the depression period and have recently reclaimed them; tenant farmers displaced on farms covered by tobacco contracts, who have been unable to obtain a place on farms covered by contracts; and those tobacco growers of long experience, who have recently acquired farms with no recent tobacco history. Every effort will be made to humanize the program and to give a fair chance to deserving individuals.

In each crop year in which the tax is levied, non-transferable tax-exempt warrants will be issued to every tobacco grower cooperating in acreage reduction programs. These warrants shall cover the number of pounds of tobacco, which each cooperating farmer is permitted to market under his reduction agreement. These warrants will be accepted as payment of the tax on the sale of his tobacco.

The Kerr-Smith Tobacco Act will classify tobacco growers into three groups, according to J. B. Hutson, Chief of the Tobacco Section of the Agricultural Adjustment Administration. First, the growers who sign contracts and qualify

for payments. Second, the growers who could not obtain an equitable base under the contracts. Third, growers not signing contracts and not conducting their farming operations in line with the spirit of the tobacco program. Such growers will not receive allotments and will be required to pay a tax.

The income of each of these three groups of growers will be on different price levels. As an illustration, if the average price for a particular type of tobacco should be 16 cents per pound, growers who have signed contracts would receive 16 cents plus payments of approximately three cents per pound, making a total of 19 cents per pound. Growers who do not qualify under contracts but who receive allotments would not pay the tax, but at the same time would not receive rental or benefit payments. These growers would receive an income based on a 16 cent price level. Non-cooperators, without an allotment would pay a tax of at least 25 percent, consequently they would receive an income based on a 12 cent price level.

In fairness to all tobacco growers, a new opportunity will be offered for signing contracts, to avoid payment of this tax. Contracts will be accepted for thirty days after the signing of the bill. The final date is July 28.

The Kerr-Smith Tobacco Act is a protective, not a prohibitory or compulsory measure. Its real purpose is to protect growers cooperating for the general good of the industry and to guarantee that the benefits of this cooperative enterprise shall go in the fullest measure to the cooperators.

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Tobacco growers who have not signed acreage reduction contracts because they could not qualify for an equitable base are requested to present their applications for allotments to their county tobacco committee. These applications must be recommended by the county committee and approved by the county agent before the Secretary will issue tax-payment warrants. All applications must be made on forms to be supplied the county committees at an early date.

Instructions going out to the county tobacco committees in flue-cured sections provide that consideration shall be given to applications for allotments to the following classes of non-contracting growers:

Former tenants who have regularly grown tobacco
and who now own and operate farms;
Landowners who have lost their farms through foreclosure since 1929 and who have recently regained them;
Tenants who have been compelled to move from tobacco-producing farms and who are now growing tobacco on farms for which no equitable allotment can be obtained under flue-cured contracts;
Farmers who have greatly reduced the acreage and production of tobacco since 1929; and
Other tobacco growers who could not obtain an equitable base and whom the Committee deems to be entitled to tax payment warrants.

Warrants covering at least two-thirds of the amount of tobacco allotted to non-contracting growers in each county will be issued to growers whose allotments are not more than 1,500 pounds. At least one-half of this two-thirds must be allotted to growers whose estimated production in 1934 is not more than 1,500 pounds.

"As we understand it", J.B. Hutson, Chief of Agricultural Adjustment Administration's tobacco section, says, "the two primary purposes of the Tobacco Act are to discourage the production of tobacco by those who have not shared in the production adjustment program and to equalize insofar as possible, as between contracting producers and non-contracting growers, the advantages of the higher price expected to result from the adjustment program. We bore these purposes constantly in mind in working out the administration of the Act."

The Act authorizes issuance to contracting growers of the types to which the Act is applicable, non-transferable tax-payment warrants expressed in pounds of tobacco and covering the amount of tobacco which such contracting producers are permitted to market under their contracts. In addition, the Secretary may issue in any county further warrants covering an amount of tobacco up to six percent of the amount of such type covered by the warrants issued to contracting producers in the county.

Growers whose production adjustment contracts have been accepted or are accepted in the 30-day extension of the voluntary sign-up authorized under the Act will be issued tax-payment warrants covering their contracted poundage without the necessity of making application for these warrants. All the information necessary for the issuance of these tax-payment warrants is contained in the contracts. The 30-day extension of the sign-up campaign ends July 28, 1934.

The tax of 25 percent of the market value will be applicable on all tobacco produced this season by growers who do not receive tax-payment warrants either

under production adjustment contracts or by allotments under the voluntary adjustment program, except Maryland tobacco, Virginia sun-cured and cigar-leaf. It will be necessary to conduct a referendum among the growers of the different types of tobacco, before March 1, 1935 to determine whether they want the tax applicable in 1935-36 to their type of tobacco.

In fixing the tax rate at the minimum allowable under the law, the Administration took into consideration the fact that the 1934 crop of tobacco was practically all planted when the Act was passed. In cases of counties where it will not be possible to issue tax-payment warrants to all growers who might be willing to conduct their farming operations in line with the spirit of the production adjustment program, the Administration felt these cases would be better taken care of with the minimum tax than with a higher rate. The Act authorizes a rate of $33\frac{1}{3}$ percent of the market value unless the Secretary of Agriculture determines and proclaims a lower rate.

Before the opening of the markets, marketing cards will be issued to all contracting producers and to all non-contracting growers for whom applications for tax-payment warrants have been approved. The amount of tax-exempt tobacco which each grower will be allowed to sell will be stated on his marketing card.

The grower will be required to present this marketing card at the warehouse in order to obtain the tax-payment warrant. When a sale is made, the number of pounds sold will be entered on the marketing card corresponding to the entry on the tax-payment warrant. These figures, representing the tobacco sold, will be subtracted on the marketing card from the quantity allotted and the remainder will represent the allotment yet to be sold.

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Note to Editors: This statement has been prepared in the tobacco section of the Agricultural Adjustment Administration and is sent to you for your information.

In developing the tobacco production adjustment program, five fundamental principles were considered:

- (1) The farmer himself knows a great deal about his own problem.

Groups of tobacco farmers were called in on numerous occasions to advise in formulating the program. The result is the tobacco program is not only for the tobacco farmer, but, in a large part, it was written by the tobacco farmer.

- (2) Effective production adjustment demands control of both acreage and pounds.

(3) The programs should be flexible. Optional bases were allowed in order that a larger percentage of growers might be able to qualify for an equitable base. The main objective of flexibility is to iron out, insofar as practical, injustices to individual growers that are bound to occur in a program embracing 400,000 tobacco farmers.

(4) Some growers receive several times as much from an acre to tobacco as other farmers, because of higher yields and superior quality. Since rental payments are uniform to all growers of the same type, adjustment payments on a percentage basis are offered to compensate cooperating growers whose tobacco acres yield higher returns.

(5) Weather conditions are beyond human control. For this reason crop insurance features are provided in the program. Rental payments will be made regardless of the outcome of the crop. Minimum second payments are provided.

(More)



Deficiency payments are made on each pound of tobacco that the production falls below the grower's allotment. For each acre of their base, tobacco growers will receive, this year, payments ranging from \$8 to \$36 per acre, even though they have a complete crop failure.

Based on these principles and with the wholehearted cooperation of tobacco farmers, the income from the 1933 tobacco crop will purchase slightly less than would the average income during the base period (1919-1928). In the case of a few types, the income is well above parity. In other types the income is still below parity. The problem now is to maintain the income from the former types and to improve the income from the latter types. At the same time, it is desired to secure additional increases in the tobacco income as the commodities advance which the farmers buy.

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THEORY

The theory of the present experiment is based on the fact that the rate of reaction between a substance and a reagent is proportional to the concentration of the substance. This is known as the law of mass action.

The rate of reaction is defined as the change in concentration of a substance per unit time. It can be measured by observing the change in the amount of a substance over a given period of time. The rate of reaction is affected by several factors, including temperature, concentration, and the presence of a catalyst.

EXPERIMENT

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July 19, 1934

Note to Editors: This information, prepared in the tobacco section of the Agricultural Adjustment Administration, is for your information and use as you wish.

Tracing the decline of the income of tobacco growers during the 10 years preceding the development of the tobacco adjustment program, J. B. Hutson, Chief of the tobacco section, brought to light some amazing figures. In explaining this situation to a group of Virginia tobacco growers, Mr. Hutson said in part:

"During the decade from 1923 to 1932, you produced more and more and in this production you worked more and more. For this production and work you received less and less. At the same time that you were receiving less and less, there were other groups in the tobacco industry that were receiving more and more. The total income of 400,000 farm families for the tobacco crop grown in the United States decreased from \$288,000,000 for the 1923 crops to \$107,000,000 for the 1932 crop.

"During the first part of this period, world consumption of United States tobacco increased. In 1923 it was 1,225,000,000 pounds. In 1929, it was 1,400,000,000 pounds. After 1929, consumption declined and in 1932 it was at the same figure as 10 years previously. There was gradual shrinking in the part received by tobacco growers during this entire period, but during depression years the income of tobacco growers declined at a ruinously rapid rate. From \$286,000,000 in 1929 to \$212,000,000 in 1930, and then, unchecked and uncontrolled, to \$131,000,000 in 1931 and \$107,000,000 in 1932. During this 10 year period manufactures' profits increased from \$76,000,000 to \$146,000,000 and even during the depression years, manufactures' profits increased from \$134,000,000 to \$146,000,000.

(more)

The first part of the paper discusses the importance of the study and the objectives of the research. It also outlines the methodology used in the study and the results obtained. The second part of the paper discusses the implications of the study and the conclusions drawn from the research. It also discusses the limitations of the study and the areas for further research. The third part of the paper discusses the significance of the study and the contributions it has made to the field of research. It also discusses the practical applications of the study and the policy implications of the research. The fourth part of the paper discusses the future of the study and the areas for further research. It also discusses the challenges faced by the study and the opportunities for future research. The fifth part of the paper discusses the conclusion of the study and the final thoughts of the researcher. It also discusses the overall findings of the study and the implications for the field of research.

"To summarize, during the decade from 1923 to 1932, the income of tobacco growers was reduced almost two-thirds. The profits of manufacturers almost doubled.

"Interpreting farmers' gross receipts in terms of the 400,000 farm families, whose major source of income is tobacco brings the true picture closer home. In 1923 the tobacco income per farm family was \$720. The next few years it dropped below that figure, but by 1929 had advanced to the 1923 level.

"From 1929 through 1932, the income per farm family from tobacco dropped from \$720 to \$250. These figures represent the gross income for the labor of all members of the family and returns on the investment in the farm and farm equipment. From this sum it was necessary to pay, or try to pay, for fertilizer, machinery, canvas, taxes, interest and all other items of expenses. In some cases it was necessary to pay for a part of the feed for work stock.

"In 1923 tobacco growers received slightly over 12 cents of each dollar paid by consumers for tobacco products and manufacturers received about $5\frac{1}{2}$ cents in the form of profits. In 1932, tobacco growers received only $4\frac{1}{2}$ cents of the consumer's dollar, whereas tobacco manufacturers received more than 10 cents in the form of profits. In addition, manufacturers received salaries for their personal services and a return of more than 20 percent on invested capital. The salaries of 12 of these men in 1932 was \$2,500,000, which was equal to approximately the total income received by 10,000 tobacco growers.

"It was situations such as this that caused a Justice of the United States Supreme Court to say about a year^{ago}, 'A prime cause of our present plight has been the failure to distribute widely the profits of industry.' It was situations such as this that caused Secretary Wallace and Administrator Davis and many others to work night and day in the development of plans for the bringing about of a more equitable distribution of the national income. It was this situation that caused the development of plans that would enable farmers to maintain the same kind of control over their output as other groups in the industry are able to maintain. It was this situation that caused you and tobacco farmers over the entire belt to join wholeheartedly in a program for the bringing about of a more equitable distribution of the tobacco income."

Aug. 1, 1934

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Note to Editors: This is the second of a series of signed discussions dealing with tobacco growers' problems and prepared in the tobacco section of the Agricultural Adjustment Administration.

TALKING TOBACCO WITH TOBACCO FARMERS

By Ben Kilgore

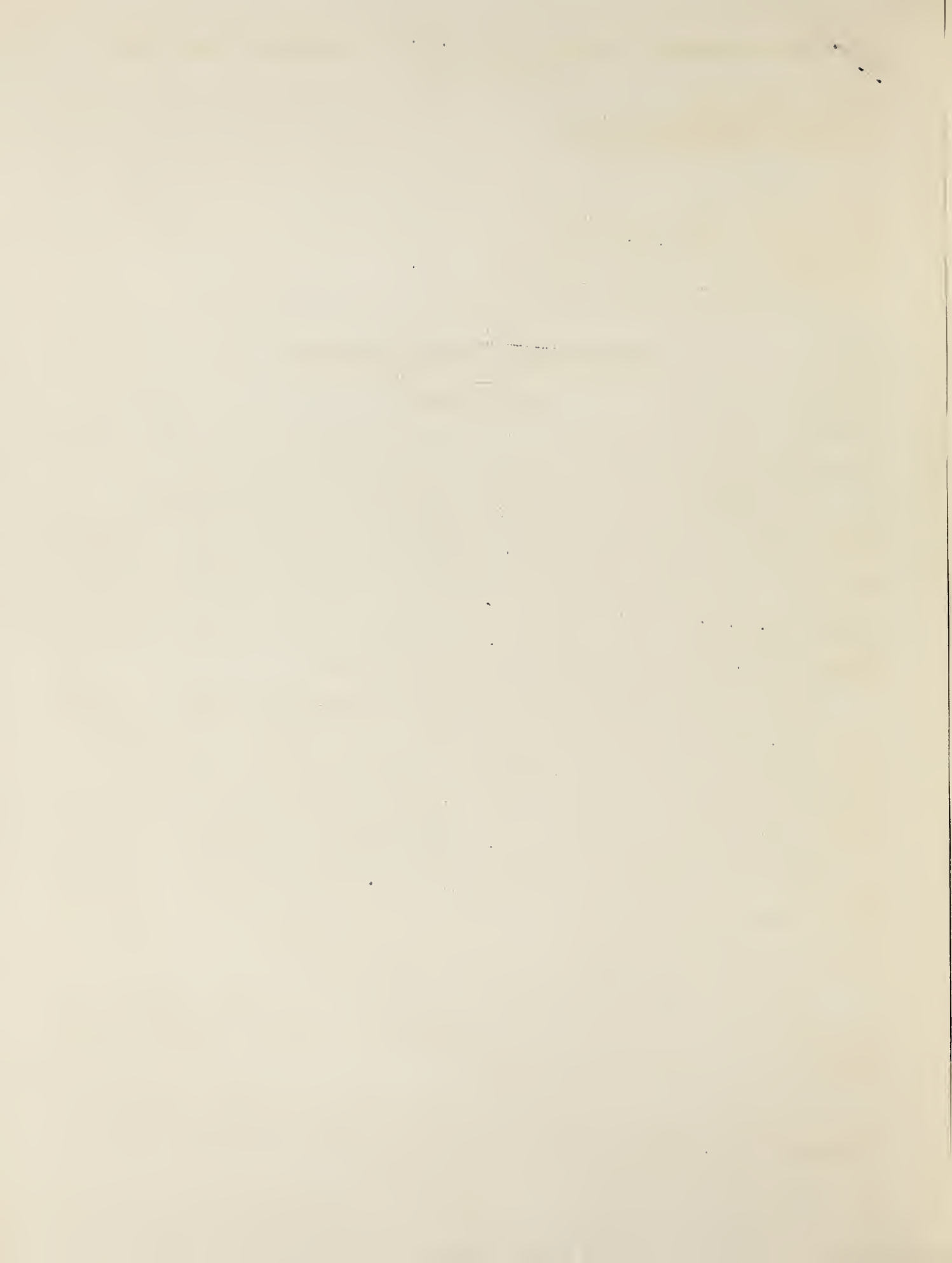
Wholehearted and prompt cooperation seems to pay in a big way.

"The promptness with which growers responded in signing contracts, together with the percentage sign-up, has had a direct relationship to benefits received." This statement "struck me squarely between the eyes" as I listened to Mr. J. B. Hutson, Chief of the Tobacco Section, speaking to Maryland tobacco growers. It aroused my interest to investigate by types.

The two extremes proved to be flue-cured and Maryland tobacco. An increase in income for the 1933 crop of 186 percent for flue-cured growers put them in a class by themselves. A 97 percent sign-up in about two weeks' time was also unequalled by the growers of any other type. This prompt and wholehearted cooperation surely had its reward in a tobacco income of 112 million dollars for the 1933 crop against 43 million for the 1932 crop. And this does not include benefit payments to flue-cured growers during the 1933 marketing season.

Maryland tobacco growers appeared content with a 20 percent sign-up. The first sales of the 1933 Maryland crop indicate a price advance of about 20 percent compared with 186 percent for flue-cured.

The growers of cigar types were somewhat skeptical at first. Finally a 74 percent sign-up was obtained for the first year.



After watching the results of the program, 95 percent eventually supported the program the second year. In this case a 95 percent sign-up, over a year of uncertainty, resulted in an increased income for 1933 of 60 percent. Excessive surplus above normal needs naturally caused the patient to respond more slowly to the treatment.

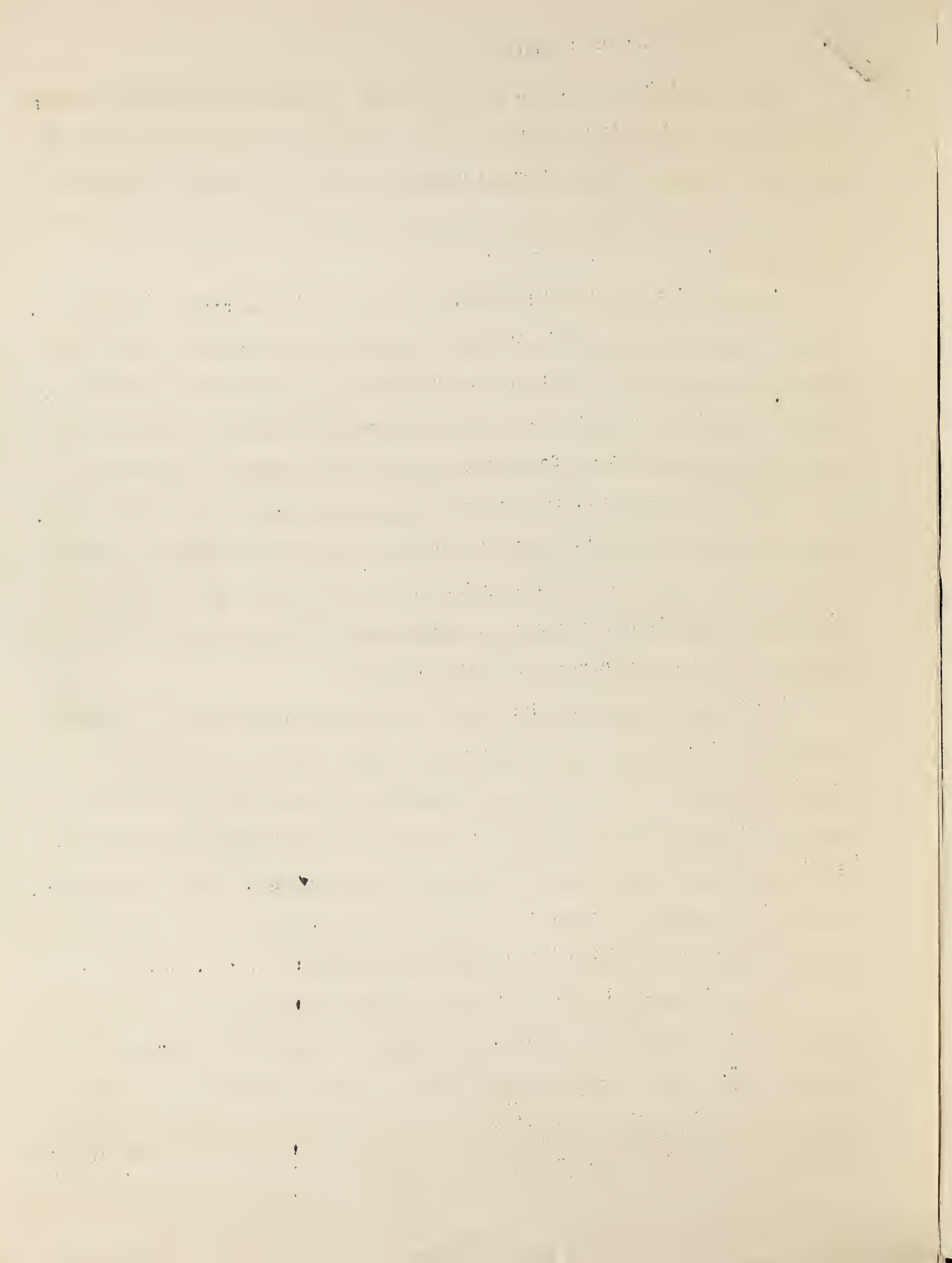
In between these types we find Burley, fire-cured and dark air-cured tobacco. The sign-ups were 82 percent, 83 percent and 76 percent, respectively. Apparently these growers didn't take the bull by the horns as did flue-cured farmers. Six months seemed more to their liking than two weeks. Consequently, more time was available for arguments and doubts and debate as to methods.

An 82 percent sign-up for Burley increased the income for the 1933 crop 42 percent above the 1932 crop, taking into account rental and adjustment payments. An entire crop of Burley plus another half crop, in the form of a surplus above normal needs, cannot help but slow up improvement. It also calls for continuous treatment for satisfactory and permanent results.

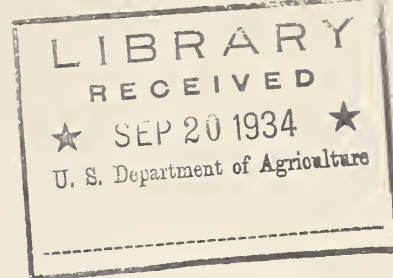
At a glance, dark air-cured, with a rather slow, half-hearted 76 percent support and a 110 percent price improvement, might seem out of line with the evidence thus far. And yet a 3.7 cent average for the 1931 and 1932 seasons allows a percentage increase to reflect less actual money improvement than the percentage increase would seem to indicate. Fire-cured with a slow, easy-going 83 percent cooperation revealed a 66 percent income increase. It required several months to complete the sign-up for each of these types.

The final summary for all types is most interesting of all. A 30 percent reduction was accompanied by a 30 percent price rise above the average of the two previous years. It is almost uncanny. Price increase resulted from "promises to reduce acreage". Because of plans for production control and through marketing agreements, in the case of most types, price increases were made effective and were capitalized on before actual reduction took place.

If prices for tobacco advance as production is systematically reduced, can't we expect prices to fall disastrously if production control is abandoned and if we again return to the practice of planting tobacco up to the front door?



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Note to Editors:



This is the third of a series of signed discussions on tobacco problems, prepared in the tobacco section of the Agricultural Adjustment Administration.

TALKING TOBACCO WITH TOBACCO FARMERS

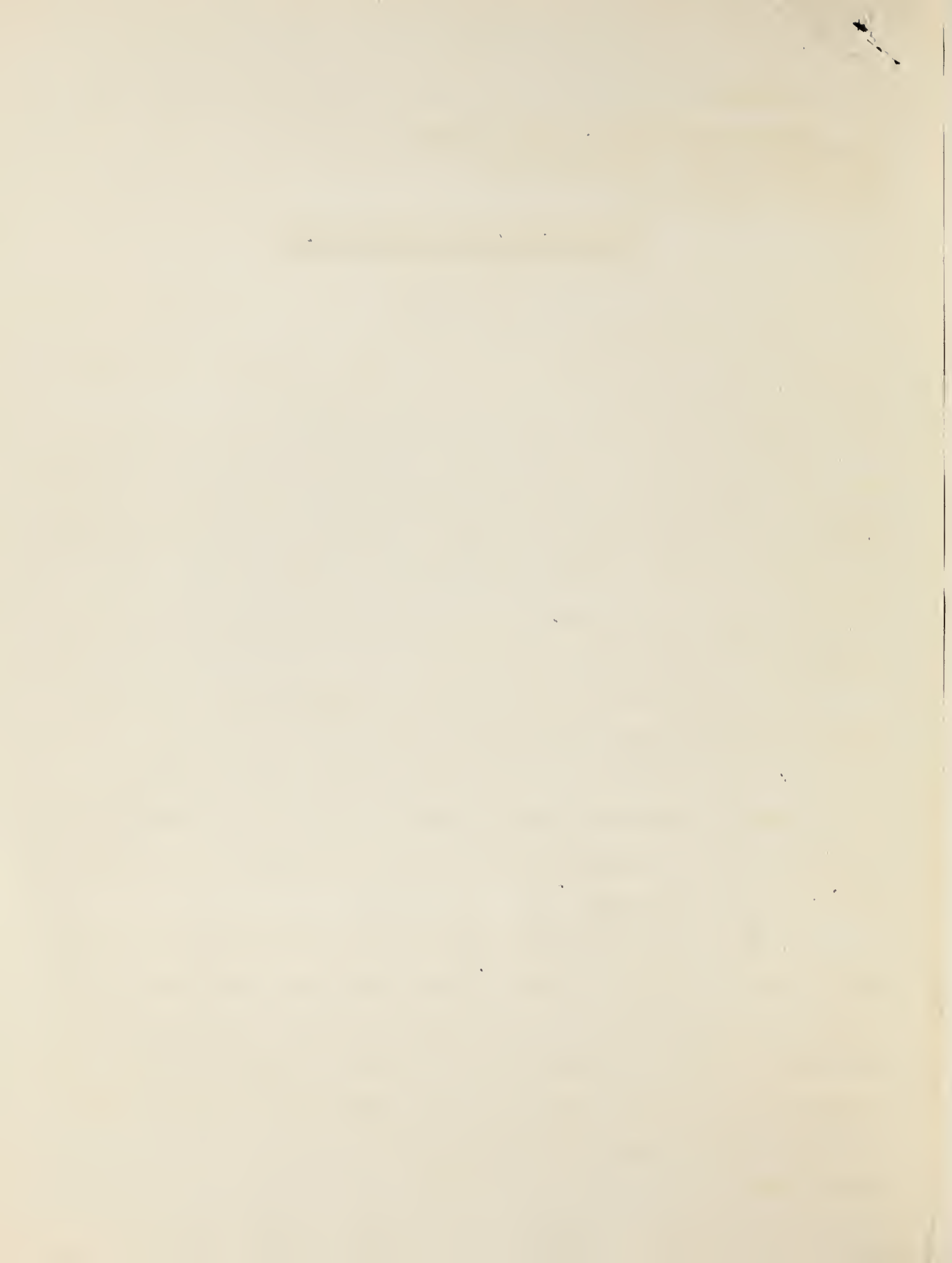
By Ben Kilgore

Tobacco farmers have one big job under way -- that of adjusting production to market needs. It is a continuous process. Orderly adjustment must continue or new surpluses will pile up to lead us into fresh disasters.

Another big job ahead is the expansion of foreign markets for our tobacco. All tobacco types except Burley and the cigar types have important export outlets. Almost half of the total tobacco crop and more than half of the flue-cured crop is consumed in foreign countries. These facts leave little doubt as to the tremendous "stake" tobacco farmers have in a freer flow of foreign trade, lower tariff barriers and less trade restrictions.

It is estimated that in 1932 consumers in foreign countries used between 125 and 150 million pounds of foreign-grown tobacco that would not have been used except for trade restrictions of various kinds. Without these restrictions, an equal quantity of tobacco from the United States would have been used. These displacements have been taking place over a period of years, and it is our task to help correct this situation.

The first step taken in this direction was the increasing of the price of gold from \$20.67 to \$35.00 an ounce. This has improved the purchasing power of foreign currency in relation to the American dollar and has thus made our tobacco far cheaper in terms of foreign currency. This made it possible for export buyers to keep step with domestic buyers last season. This will also make it possible for them to advance prices materially this season.



Our tobacco is popular in foreign countries. Its superior aroma, taste and elasticity cause it to be preferred by consumers in other countries. Under the new tariff law, efforts to regain our recently lost export tobacco trade will be speeded up. Their success will be determined to a large extent by the improvement in world conditions and the tariff reductions we can allow these countries on products they desire to sell to us. It is impossible to secure trade advantages without giving something of equal value in return.

The exports of all types of tobacco to foreign countries was 20 percent greater during the year ending June 30, 1934 than in the preceding year.

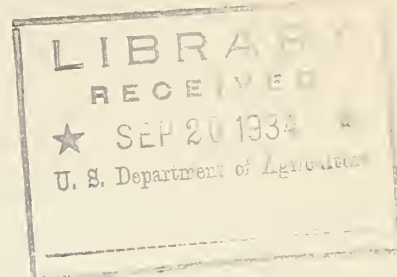
Tobacco farmers are facing a happier situation. This improvement is largely the result of their own cooperative effort. As I see it, this situation can be continued and improved, if farmers will insist on keeping the "control" in their own hands.

To abandon this control, to relinquish it to other hands, is to surrender these happier conditions and hopeful prospects to uncertain prospects and probably a far too rapid return of unhappy days to tobacco growers.

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Note to Editors: This material, prepared in the tobacco section of the Agricultural Adjustment Administration, is sent to you exclusively for such use as you may wish to make of it in your State.



"Unquestionably the 10 cent price for cigarettes is popular," declared J. B. Hutson, Chief of the Tobacco Section, in an address at the North Carolina Farm and Home Week at Raleigh on August 1. "This is practically proven by the efforts of both the manufacturers of standard brands and the present 10 cent manufacturers to secure changes in tobacco tax rates which will allow them to sell a 10 cent cigarette at a desired margin of profit."

"It seems reasonably certain", continued Mr. Hutson, "that a tax reduction plan which makes available the standard brands at a 10 cent price, and which keeps them there, would be favorable to increased consumption of cigarettes and a large domestic market for the cigarette grades of flue-cured and Burley tobacco. Coupled with the standard brands at 10 cents, in order to get maximum consumption of cigarettes in our domestic market, it is believed that a popular companion would be a 5 cent package of 15 cigarettes. This forms the basis of a tobacco tax reduction plan, embracing the best of the two ideas already proposed, which we firmly believe promises the largest income for tobacco growers at the present and over a long number of years. It is reasonable to think that a package of 15 cigarettes for 5 cents would more likely be popular than two packages of 20 cigarettes for 15 cents."

In outlining a tobacco tax reduction program, which he believed would guarantee the largest income to tobacco growers, Mr. Hutson suggested the following tax schedule for cigarettes:

\$3.00 per thousand on cigarettes with a net wholesale price of more than \$4.25 per thousand. Cigarettes selling to retail at 2 packages of twenty for 25 cents and more would fall into this class.

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\$2.00 per thousand on cigarettes with a net wholesale price of more than \$3.00 per thousand and not more than \$4.25 per thousand. Cigarettes selling to retail at 10 cents per package of twenty would fall in this class. The bulk of the sales would probably come in this group.

\$1.40 per thousand on cigarettes with a net wholesale price of not more than \$3.00 per thousand, provided they are sold in packages of fifteen cigarettes each. Cigarettes selling to retail at 5 cents per package of fifteen would fall in this class.

The results that might be expected to follow the adoption of these rates -- if enacted into law by the Congress -- according to Mr. Hutson were briefly that the above rates would more nearly accomplish the objective of tobacco growers than any other combination of rates that has been proposed. The \$3.00 rate for cigarettes selling to retail for more than 10 cents per package is left in order to insure that the manufacturers of standard cigarettes will move their cigarettes into the 10 cents price class and keep them in that price class. The \$2.00 rate suggested would enable the manufacturers of the standard cigarettes to sell their product at a price that would permit a package of 20 to retail at 10 cents. It is expected that the bulk of consumers using cigarettes which now sell at 10 cents per package of twenty and at two packages for twenty-five cents would turn to this class of cigarettes.

The rate of \$1.40 per thousand is suggested in order to encourage the introduction of cigarettes selling at 5 cents per package of fifteen. It is expected that a considerable proportion of the present users of granulated tobacco and hand-made cigarettes would turn to the 5 cent cigarettes. It has been estimated that between 25 and 30 billion hand-made cigarettes were consumed in 1933. When consumers turn from hand-made cigarettes to manufactured cigarettes, they consume more and this would be reflected in a larger consumption of leaf tobacco.

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
JANUARY 1950

TO THE HONORABLE CHAIRMAN
OF THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF CHICAGO

Very respectfully,
Yours truly,
[Signature]

In reply to the arguments that have been advanced that two popular priced cigarettes would lower the price of the better cigarette grades of tobacco Mr. Hutson explained, "The two popular priced package plan probably would result in considerable shifting from smoking mixtures and hand-made cigarettes to manufactured cigarettes. It is our observation that higher prices are paid for the grades used in manufactured cigarettes than are paid for those used in other classes of products. There is some difference in prices paid for the tobacco used in the standard cigarettes and that used in the 10 cent cigarettes, but most of the difference in the cost of the tobacco in these two classes of products is due to the larger quantity of imported tobacco used in the standard cigarettes. Consequently, the plan for two price classes of cigarettes should cause a slightly greater advance in the prices of the better grades of tobacco than of the lower grades."

Mr. Hutson concluded the tobacco tax reduction presentation with the following emphatic statement, "The proposal I have outlined is my personal conviction based upon a prolonged inquiry into all the phases of the tax question. Uppermost in my mind in examining and re-examining the various proposals that have been suggested, has been the economic welfare of tobacco growers. I do not assume to state administration policy on this very complex matter. Other departments of government have an interest in what is done. It is the prerogative of Congress to determine what is best and proper and, as your representatives, to legislate accordingly."

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THE FIRST PART OF THE HISTORY OF THE
LIFE OF THE LATE KING OF GREAT BRITAIN

CHARLES THE SECOND

BY JOHN BURNET

IN TWO VOLUMES

LONDON

Printed by J. B. for J. B. 1704

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Aug. 3. 1934 2

Note to Editors: This material, prepared in the tobacco section of the Agricultural Adjustment Administration, is sent to you exclusively for such use as you may wish to make of it in your State.

"Unquestionably the 10 cent price for cigarettes is popular," declared J. B. Hutson, Chief of the Tobacco Section, in an address at the North Carolina Farm and Home Week at Raleigh on August 1. "This is practically proven by the efforts of both the manufacturers of standard brands and the present 10 cent manufacturers to secure changes in tobacco tax rates which will allow them to sell a 10 cent cigarette at a desired margin of profit."

"It seems reasonably certain", continued Mr. Hutson, "that a tax reduction plan which makes available the standard brands at a 10 cent price, and which keeps them there, would be favorable to increased consumption of cigarettes and a larger domestic market for the cigarette grades of flue-cured and Burley tobacco. Coupled with the standard brands at 10 cents, in order to get maximum consumption of cigarettes in our domestic market, it is believed that a popular companion would be a 5 cent package of 15 cigarettes. This forms the basis of a tobacco tax reduction plan, embracing the best of the two ideas already proposed, which we firmly believe promises the largest income for tobacco growers at the present and over a long number of years. It is reasonable to think that a package of 15 cigarettes for 5 cents would more likely be popular than two packages of 20 cigarettes for 15 cents."

In outlining a tobacco tax reduction program, which he believed would guarantee the largest income to tobacco growers, Mr. Hutson suggested the following tax schedule for cigarettes:

\$3.00 per thousand on cigarettes with a net wholesale price of more than \$4.25 per thousand. Cigarettes selling to retail at 2 packages of twenty for 25 cents and more would fall into this class.

\$2.00 per thousand on cigarettes with a net wholesale price of more than \$3.00 per thousand and not more than \$4.25 per thousand. Cigarettes selling to retail at 10 cents per package of twenty would fall in this class. The bulk of the sales would probably come in this group.

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Extension Editors

(Tobacco Story)

Note: This special material on the tobacco situation, prepared in the Tobacco Section of the Agricultural Adjustment Administration, may be used as you wish.

The plight of 400,000 farm families depending on tobacco as a major source of income at the time the Agricultural Adjustment Act went into effect is graphically illustrated by the fact that at that time the average income of these families was only \$250, compared to an income of \$720 in 1929.

The tobacco grower's income was not high in 1929 but it was nearly three times as great as it was three years later. This reduction in income affected not only the producer but warehousemen and their workers as well.

In 1932 there were approximately 600 tobacco warehousemen and 12,000 employees engaged in selling tobacco. The returns to these groups for labor and the use of warehouses and equipment were approximately \$5,000,000 as compared with \$10,000,000 in 1929. Approximately 90,000 wage earners working in tobacco factories in 1932 received \$61,000,000 in round numbers or about \$675 per person, as compared with 116,000 wage earners who received \$815 per person in 1929. Thus, it is easily seen that, measured in terms of human values, poverty prices for tobacco growers parallel unemployment and low wages for workers. Low prices paid to tobacco growers had the opposite effect on manufacturers.

In 1932, a dozen of the administrative officials of tobacco manufacturing companies received more than two and one-half million dollars for personal services, or as much as was received by 10,000 farm families for their labor, for the use of their farms, and for the purchase of necessary supplies. The amount received by those 12 officials for personal services was, roughly, equal to

one-half the amount received by 600 warehousemen for their services and from which they paid 12,000 employees, in addition to furnishing warehouse space for the selling of tobacco. In addition to the income of administrative officials the tobacco manufacturing business paid approximately 20 percent on capital invested. Profits from the manufacturing branch of the industry were \$146,000,000 in 1932, as compared with \$135,000,000 in 1929.

The relationship between manufacturers' profits and prices to tobacco farmers is shown in the following comparison of incomes of farmers, warehousemen, and manufacturers under the Agricultural Adjustment Act.

Income to tobacco farmers has risen to 214 million dollars or approximately \$500 per farm family. The income of tobacco warehousemen has increased from \$5,000,000 in 1932 to \$9,000,000 in 1933. Wage rates have been advanced and laborers in tobacco manufacturing plants are receiving more than last year. Due largely to competitive conditions in the industry, the net income of tobacco manufacturers was reduced to approximately 60 million dollars.

Tobacco farmers are not only helping themselves by making the tobacco programs successful but are aiding employment, are increasing their best market for farm commodities and are helping restore the cycle of prosperity, based on the cooperation of groups, with the ultimate aim of the greatest good to the largest numbers of people.

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